

**RECOMMENDATIONS FOR
FUTURE MUNICIPAL
CREDIT TRAINING IN THE
CZECH REPUBLIC**

Prepared for

East European Regional Housing Sector Assistance
Project
Project 180-0034
U.S. Agency for International Development,
ENI/EEUD/UDH
Contract No. EPE-C-00-95-001100-00, RFS No. 404



Prepared by

George Peterson
The Urban Institute



THE URBAN INSTITUTE

2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org

May 1999
UI Project 06610-404

RECOMMENDATIONS FOR FUTURE MUNICIPAL CREDIT TRAINING IN THE CZECH REPUBLIC

Accomplishments To-Date

The combination of the Banking Institute, Urban Research, SEVEN, and independent consultants specialized in municipal budgeting and the legal aspects of the municipal credit market have shown themselves to be capable of providing introductory seminars on the municipal credit market, on their own and without the participation of foreign advisors. The introductory seminars have been successfully tailored to both bankers and municipal finance officials, with appropriate changes in emphasis for the two audiences. The most recent seminars, provided almost entirely by Czech institutions and Czech professionals, have been highly rated by participants.

Further, this group of institutions has shown itself capable of delivering "updated" seminars for participants who have already received one round of training. These seminars place more emphasis on recent changes in the legal framework, recent changes in government financing policy or reporting regulations, and changes in complementary programs of the State Environmental Fund.

Finally (and remarkably), the group of institutions has demonstrated that training in this field can be fully self-financing. Recent seminars have been financed 100 percent from participant fees, except for the costs of foreign trainers-of-trainers. Income from fees has covered all local costs, and in fact has generated a surplus that can be used for future seminar development and institutional profit.

Next Steps if Training Seminars Receive No Further USAID Assistance

Over the next year or so, seminar presentations should be able to continue on their current track. The Banking Institute has done a very good job of publicizing the seminars to the banking and financial community. This activity now generates demand on its own. For example, during the week of June 1, 1999 the institutions will provide a specialized seminar on the municipal credit market for the staff of Czechoslovak Trade Bank (CSOB), one of the largest banks in the Czech Republic. As of the date of preparation of this note, 29 CSOB staff members had been enrolled in the seminar.

The organizations have shown themselves capable of generating

significant demand for seminars from the municipal sector. This demand will be more difficult to sustain, however. The Banking Institute does not have the same natural connection with the municipal sector that it has with the banking sector. Small to medium-sized municipalities, those which stand to benefit most from municipal credit market training, cannot easily find the funds to cover the costs of a specialized seminar and the costs for travel and lodging. For this reason, we recommend that the Banking Institute and Urban Research enter into a formal association with the Union of Towns and Communities (UTC) in offering future seminars targeted at municipal officials. One of the participants in the most recent seminar was the Chairman of the Finance Committee of the UTC. His experience should help the sponsoring organizations target seminar development for municipal officials and facilitate formal cooperation with the UTC.

Next Steps for External Assistance

We believe that there are three roles that can be usefully supported by external institutions at this time, whether the assistance is provided through United States Agency for International Development (USAID) or other international organizations.

The case studies, *central to the seminar instructional method, will need to be updated and modified to fit changed legal and financial circumstances.* We have found that the case studies are most useful when they fit exactly the legal framework, intergovernmental financing context, budgeting and reporting rules that are in effect at a given time in the Czech Republic. Participants have had some difficulty in utilizing the case studies when they are even slightly out of date, e.g., report financial data in a format that was mandated by the national government for the previous year but fail to capture the changes in budgeting or reporting format mandated for the current year. This implies that the case studies will have to be constantly modified and updated to make sure that they both capture the most important contemporary issues in the municipal credit market and organize budget data in the form currently prescribed by law. The need for case study modification may diminish somewhat in the future. Between 1996 and 1998 government rules for budget presentation changed each year, for example. In 1999 the rules were left unchanged, and no proposals have been introduced for change in the year 2000. This greater stability may well prolong the shelf life of the case studies.

Nonetheless, it would be desirable to regularly update the current case studies and to introduce new case studies that capture important credit market issues as these are identified in the future.

It appears to us that the current institutions engaged in seminar presentation do not have the institutional capacity or financial incentive to make more than modest changes in the case studies. Substantial modification of the



case studies, or the development of new case studies or the continuing institutional capacity to develop case studies, almost certainly will require some degree of outside assistance. We recommend that if USAID decides to invest further in training development, it give priority to developing the institutional capacity and financial incentives within Czech institutions to develop new case studies in the future. If USAID decides not to continue training development, we recommend that it help link the current institutions providing credit market training seminars with other international organizations, like the British Know-How Fund or Poland and Hungary Assistance for Economic Restructuring (PHARE), that are likely to remain active in this field in the future.

There should be further development of the concept of a multi-year Capital Improvement Plan (CIP) and its linkage to the annual capital budget for seminars provided to municipal officials. The recent (May 1999) seminar was the first seminar sponsored by the Banking Institute aimed primarily at municipal officials. The presentation by Ms. Pekova on capital investment planning was highly evaluated by participants. However, the concept of multi-year capital investment planning, and the annual translation of this CIP into a capital budget and financing strategy, proved to be more novel for municipal officials than we had anticipated. It also was somewhat novel to the Czech presenters. Further preparation of the presentation on the multi-year local CIP and how it can get funded, from grants, loans, and current-account surplus, would enhance the value of future seminars targeted at municipal officials. It would also be appropriate for seminars given to bank officials, since one of the main problems in the local credit market remains the unfamiliarity of many banking officials with municipal budgets.

There should be development of a specialized course on “project finance,” i.e., the financing of municipal investment projects, like water and sewer systems or gas provision, from fees and charges. Both the economics and legal aspects of this kind of revenue financing need to be better understood in the Czech Republic.

We can identify three options for financing the next steps identified here:

! USAID could re-program some of the remaining Czech technical assistance funds to pay for development by a combination of Czech institutions and US consultants, as has been done for other types of seminar development in the past.

! USAID could announce a small “competition” for Czech institutions and

award a moderate-sized grant for the organization or consortium that came up with the best plan for developing and implementing one or more of the pieces of work described above.

- ! USAID could serve as facilitator in turning over future support for municipal credit training seminars to one or more other international institutions that will remain active in this field in the Czech Republic.